

BEFORE
THE PUBLIC SERVICE COMMISSION
OF SOUTH CAROLINA
DOCKET NO. 2011-47-WS

IN RE: Application of Carolina Water Service,)
Inc. for Approval of an Increase in its Rates for)
Water and Sewer Services Provided to all of its)
Service Areas in South Carolina)
_____)

DIRECT TESTIMONY
OF
LISA SPARROW

1 **Q. WOULD YOU PLEASE STATE YOUR NAME AND BUSINESS ADDRESS?**

2 A. Lisa Sparrow, 2335 Sanders Rd. Northbrook, Illinois 60062.

3 **Q. WHAT IS YOUR CURRENT POSITION OF EMPLOYMENT?**

4 A. I am President and Chief Executive Officer of Utilities, Inc. and its subsidiaries
5 including Carolina Water Service, Inc.

6 **Q. HOW LONG HAVE YOU BEEN EMPLOYED BY UTILITIES, INC.?**

7 A. I joined Utilities, Inc. in 2002 in the capacity of Director of Operations. I
8 advanced to Chief Operating Officer in 2006 and then to President and CEO in 2009. I
9 was appointed to my current position in November 2009.

10 **Q. WHAT IS YOUR EDUCATIONAL AND EMPLOYMENT BACKGROUND?**

11 A. I earned a Bachelor of Science in Mechanical Engineering from Michigan State
12 University and a Masters in Management from J.L. Kellogg Graduate School of
13 Management at Northwestern University. I have over 20 years of experience in
14 infrastructure, energy and manufacturing companies including 16 years in a variety of

1 management positions at BP, a global energy company and General Motors, a global
2 automotive company. I sit on the National Drinking Water Advisory Council, a 15
3 person council advising the Environmental Protection Agency on important water issues.
4 I am also President Elect of the National Association of Water Companies.

5 **Q. WHAT ARE YOUR DUTIES AND RESPONSIBILITIES AS PRESIDENT AND**
6 **CEO OF UTILITIES, INC.?**

7 **A.** As the Chief Executive Officer, I am responsible for all aspects of the company's
8 business culminating in the ongoing provision of safe drinking water and
9 environmentally responsible wastewater service to over 1 million people in 15 states
10 across the United States.

11 **Q. HAVE YOU APPREARED BEFORE THIS COMMISSION IN THE PAST?**

12 **A.** Yes, most recently in the Allowable Ex Parte briefing for Tega Cay Water
13 Service, Inc.

14 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING,**
15 **MS. SPARROW?**

16 **A.** The purpose of my testimony is to provide an overview of the reasons for the rate
17 increase requested by Carolina Water Service, Inc. and to introduce the other witnesses
18 that will be testifying in this proceeding.

19 **Q. WHY IS CAROLINA WATER REQUESTING A RATE INCREASE?**

20 Carolina Water has invested \$10 million in capital improvements since its last rate
21 case. In addition, Carolina Water's current rates are based on 2005 expenses. Since the
22 last test year, in spite of our efforts to reduce expenses wherever possible, expenses
23 increased approximately 13%. In light of the fact that the Consumer Price Index reflects

1 that water and sewer maintenance increased 35% over the same time period, Carolina
2 Water can demonstrate that it is doing all it can to control costs whenever possible. In
3 addition, the \$10 million in capital invested by Carolina Water, which equates to a \$7.5
4 million increase to rate base, is driving the need for rate relief at this time. We recognize
5 that these are tough economic times and that there is no good time for a rate increase.
6 However, because of our continued investment in our water and wastewater operations in
7 South Carolina, Carolina Water is essentially breaking even earning less than 1% return
8 on equity. We have worked diligently to improve operations and service to meet the
9 standards expected of us by this Commission and the Office of Regulatory Staff. We
10 have made the investments required by DHEC for safe drinking water and responsible
11 disposal of wastewater effluent. We have made a concerted effort to control costs
12 through a number of cost-cutting measures to delay the necessity to raise rates and
13 minimize the impact of any rate increase. We have demonstrated our good faith and
14 honest effort to meet the standards of this Commission and cannot put off recovery of our
15 capital investment any longer. We regret that the fact of our required investments in
16 South Carolina compel the need for our request for a substantial rate increase. If we are
17 to continue to invest in South Carolina, Carolina Water must have rate relief. We simply
18 will be unable to secure any persons or institution willing to loan money or make an
19 investment in a company that is insolvent.

20 **Q. HOW WOULD YOU DESCRIBE THE CHALLENGES FACING THE WATER**
21 **AND WASTEWATER UTILITY INDUSTRY TODAY?**

22 **A.** Our industry today operates an aging and, in some instances, literally crumbling
23 infrastructure in an era of growing environmental regulation. Government agencies have

1 estimated the water infrastructure needs in the country will approach \$1 trillion over the
2 next 20 years. Unlike the electric and gas industries which operate with integrated
3 networks, providing water and wastewater services often remains a local challenge with
4 over 53,000 small water systems nationwide. This is largely a function of 1) local aquifer
5 or surface water sources and 2) a closer cost trade-off between distribution and backbone
6 infrastructure such as wells and storage tanks. New federal and state regulations also
7 mandate new investment in our system. Since the last test year in 2005, the
8 Environmental Protection Agency has imposed increasingly stringent standards related to
9 the quality of drinking water and wastewater effluent. For example, since the last test
10 year in 2005, the Environmental Protection Agency has numerous new or revised
11 standards related to the quality of drinking water and wastewater effluent. Examples of
12 changes in drinking water regulations include revisions to the Lead and Copper Rule, the
13 Groundwater Rule, Stage 1 and Stage 2 of the Disinfection Byproducts Rule, the Arsenic
14 Rule, and the Total Coliform Rule plus sampling activities associated with Contaminant
15 Candidate Lists 2 and 3. Examples of impacts to wastewater operations include the
16 establishment of more stringent water quality limits in plant discharge permits such as
17 phosphorus, nitrogen, and copper; increases in frequency of sampling; documentation and
18 reporting requirements for plant process control, maintenance, repair, and laboratory
19 activities; and documentation and reporting requirements for collection system facilities.

20 The continuing perception that water should be free drives customer insistence
21 that rates remain low, but this simply does not reflect reality. Because of the local nature
22 of water infrastructure and thus local pricing, customers might find less expensive water
23 in neighboring pockets or systems. However, those neighboring municipal systems

1 generally have a larger customer base across which to spread fixed costs (and the water
2 industry's operating and maintenance costs are largely fixed), they do not pay taxes, and
3 are often subsidized by other revenue streams. Both Environmental Protection Agency
4 and American Water Works Association support full cost pricing for our precious water
5 resources, and investor owned utilities really have no choice but to do so.

6 In spite of this downward pressure on water and sewer rates, customers expect
7 and deserve increasingly efficient, reliable service. Because our customers are becoming
8 more sophisticated, they expect and deserve more detailed and real time information from
9 their water and wastewater providers. One of our biggest challenges is providing the
10 information and right level of detail to customers to show them that we are providing a
11 value to them which includes a high level of service quality at an affordable price.

12 **Q. PLEASE DESCRIBE THE CHALLENGES THAT CAROLINA WATER**
13 **SERVICE, INC. FACES IN MEETING THE SERVICE NEEDS AND DEMAND**
14 **OF ITS CUSTOMERS.**

15 **A.** Carolina Water provides water and wastewater services to approximately 9,000
16 water and 13,000 wastewater customers across nine counties in South Carolina. Carolina
17 Water provides water to its customers from its own 35 wells and from bulk municipal
18 providers flowing through 114 miles of water distribution mains. In addition to that of its
19 bulk service providers, Carolina Water provides wastewater treatment through the
20 operation of its own 9 sewer treatment plants and 265 miles of sewer collection lines.
21 However, Carolina Water's water mains and sewer lines range in age from zero to fifty
22 years old with the average being over 30 years old. Carolina Water experiences

1 increasing demand for capital investment and maintenance costs necessary to keep up
2 with aging infrastructure and new regulations

3 We have had a number of challenges with respect to our customer service and
4 billing. After developing our customer care and billing system to meet the
5 recommendation of the management audit conducted by Schumaker and Company,
6 Carolina Water experienced some initial issues after implementation of its new billing
7 system in 2008. We experienced instances of delayed billing and, in some instances, a
8 failure to issue bills. Understandably, these billing inaccuracies gave rise to a number of
9 customer complaints. In response, the Commission opened a docket to address the
10 billing issues. We have worked with and through the ORS to address and resolve these
11 billing issues. While extremely disappointing to customers and Carolina Water, the
12 billing errors have been resolved and the new billing system is now largely a success.

13 **Q. WHAT HAS CAROLINA WATER DONE TO MEET THESE CHALLENGES?**

14 **A.** Carolina Water and the ORS have developed a Joint Corrective Action Plan to
15 address these billing issues which the Commission will be asked to review. More
16 broadly, Utilities, Inc. and Carolina Water Service, Inc. have refined their mission
17 statement to address the needs of our customers, employees, shareholders and the
18 communities, which we serve. Specifically, we have renewed our emphasis on improved
19 customer service and operations by restructuring our company to create a specific
20 Customer Service organization and setting up related Key Performance Indicators to
21 monitor their success.

22 In particular, since the last rate case, we invested \$22 million in new systems
23 including our new Oracle Customer Care and Billing system. We have consolidated our

1 customer service into three call centers with a new telephone system which provides for
2 nationwide redundancy. We have realigned our operations, which have resulted in a 30%
3 reduction in overhead. To focus on water and wastewater services, we have closed our
4 non-core businesses such as BioTech. We now have dedicated employees to South
5 Carolina to enable us to respond quickly to customer concerns.

6 Carolina Water is dedicated to improving service to all its customers. We have
7 invested \$10 million in the Carolina Water infrastructure here in South Carolina since the
8 end of the 2005 test year in our last rate case. For instance, Carolina Water invested
9 approximately \$1 million to upgrade the wastewater treatment plant in the Pocalla sewer
10 system in Sumter County serving 176 sewer customers. Even the smallest system
11 deserves our full attention.

12 **Q. PLEASE DESCRIBE THE IMPACT OF CAROLINA WATER'S REQUESTED**
13 **RATE INCREASE ON ITS WATER AND SEWER CUSTOMERS.**

14 **A.** An average residential customer, those using approximately 5,500 gallons per
15 month will see his bill increase approximately \$30 per month from \$69.52 to \$99.71, an
16 increase of approximately \$1 per day for both water and wastewater services under the
17 proposed rates. If the Commission grants Carolina Water the rates requested the typical
18 water and sewer customer would pay approximately \$3 a day for safe, reliable drinking
19 water and environmentally responsible disposal of their wastewater.

20 **Q. PLEASE EXPLAIN TO THE COMMISSION HOW CAROLINA WATER**
21 **SERVICE, INC. PLANS TO PROCEED IN THIS HEARING?**

22 **A.** I will testify on behalf of the company, along with the following witnesses:

- 1 1. Steve Lubertozzi, Executive Director of Regulatory Accounting and
2 Affairs at Utilities, Inc., will sponsor and testify in support of Carolina
3 Water's application.
- 4 2. Pauline A. Ahern, a principal with AUS Consultants, will present her
5 independent analysis of the fair rate of return on equity that allows
6 Carolina Water to attract capital on reasonable terms.
- 7 3. Patrick Flynn, Regional Director for Utilities, Inc., will discuss the capital
8 and operational improvements made by Carolina Water to its water and
9 wastewater systems.
- 10 4. Karen Sasic, Director of Customer Care for Utilities, Inc. will discuss
11 Carolina Water's customer care and billing system and our efforts to
12 improve the level of customer service afforded Carolina Water customers.
- 13 5. Bob Gilroy, Regional Manager for Utilities, Inc and Carolina Water
14 Service, Inc., will discuss Carolina Water's operations generally and
15 address some specific concerns raised by our customers.

16 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

17 **A.** Yes. But, permit me the opportunity to thank the Commission for allowing us the
18 opportunity to appear and explain and support our application for rate relief. Thank you.